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November 20, 2006

TO: Each Supervisor

FROM: Bruce A. Chernof, M. D.
Director and Chief Medical Officer

SUBJECT: **METROCARE FISCAL IMPACT UPDATE**

This is in response to your Board's order of October 17, instructing me to report back with updated financial information regarding MetroCare. I have also included responses to questions raised with respect to the discussion at the recent Beilenson hearings.

MetroCare

In my report to you of October 17, 2006, I provided you with "a very preliminary estimate of what the expenses, revenues and net costs" might be for MetroCare, as compared to those used for K/DMC in our September 20, 2006 Fiscal Outlook Update to the Board. In bringing you this latest update, I continue to caution that our latest estimates are still very much a work-in-process, given that several programmatic elements of MetroCare are still under development, and that the extent and cost of contract labor and temporary outsourcing of patient care services which may be required are unknown at this time.

Attachment A provides an update of the schedule provided in our letter of October 17, and now includes FY 06-07, as well as FY 07-08 and FY 08-09. Attachment A is based on the updated timeline provided as Attachment B. To the extent the events and related scheduling as reflected in Attachment B change, our fiscal impact estimates will change accordingly.

In our last report, we indicated that:

"The portion of FY 07-08 which will still be in transition (through at least November 5, 2007) is not reflected in the attached, since the timeline for transition was developed concurrently with these financial estimates. Over the next 30 days, we plan to make this adjustment, and others as become apparent, and develop financial estimates for the current fiscal year based on the transition plan presented in this letter. The determination of the current FY estimates

may have a 'spillover' impact on the FY 07-08 and FY 08-09 revenue estimates due to the way Medi-Cal Redesign works."

We have attempted to address these previous limitations in the updated estimates presented in Attachment A.

We further indicated that

"...the net cost of the new configuration, including the assumed permanent reassignment of over half of K/DMC's current employees to other Health Services or County budget units, is roughly estimated to cost \$31 million to \$33.7 million more than the previous estimates for FYs 07-08 and 08-09, respectively."

As you can see from Attachment A, the estimated net costs are now \$24.5 million, \$38.4 million and \$18.1 million respectively, for FYs 06-07, 07-08 and 08-09. The biggest change in the costs from our last report pertains to the estimates for K/DMC employees expected to be transferred to other Health Services or County budget units. The estimates now anticipate that these excess employees will be completely mitigated by the end of FY 07-08.

Questions and Answers

Following are the questions raised with respect to the discussion at the recent Beilenson Hearings.

Question

"We assume the County doesn't need \$200 million from CMS to have the first 75 beds by year end and then 42 beds at K/DMC. Can you get estimates or a projection for the revenue and expenses on a smaller simpler K/DMC with 42 beds and how as well as how much of the balance of the federal funding will be used?"

Answer

The MetroCare plan, as summarized in Attachment B, contemplates maintaining the current K/DMC 174 bed (including psych) average daily census workload level during the transition and post-transition periods, plus the permanent addition of 22,900 outpatient visits during FY 07-08 at the new MLK-Harbor. The 174 bed workload level is intended to be accommodated temporarily, and in some cases permanently, by the new MLK-Harbor, Harbor/UCLA, LAC+USC, Rancho, and Olive View/UCLA, as

use of beds in private hospitals in the event the beds in other County hospitals cannot be opened fast enough or if there is insufficient staff support at K/DMC to support the patient load at a given point in time.

The bulk of the \$200 million at risk is under Medi-Cal Redesign. These revenues are received by participating public hospitals based on Medi-Cal revenues received in FY 04-05 (baseline), plus any residual amounts available under Medi-Cal Redesign (stabilization funds), which are distributed 60% to the public hospitals and 40% to the private participating hospitals. The 60% for the public hospitals is distributed among them 70% pro rata based on respective hospital baseline amounts and 30% among "donor" public hospitals based on the relative size of each hospital's donation of CPE's to "recipient" public hospitals with insufficient certified public expenditures of their own to draw down their baseline and stabilization revenues.

Under SB 1100, the State implementing legislation for the Medi-Cal Redesign 1115 waiver, reimbursement for inpatient Medi-Cal and inpatient and outpatient uninsured services for a participating public hospital changes when a hospital's costs for these services changes from one fiscal year to the next. The change in these costs adjusts the baseline (and corresponding participation in the stabilization funds) in the subsequent fiscal year, unless the aggregate percentage change in costs for the participating public hospitals differs from the aggregate Medi-Cal Redesign revenues in the participating private hospitals by more than 3%, or the balance in the Safety Net Care Fund falls below \$153 million, in which case all participating hospitals revert to their original baselines.

For the non-Medi-Cal Redesign revenues impacted by a loss of CMS certification, such as Medicare, these generally follow the patient.

Question

We also assume that as beds are closed at K/DMC—beds will be opened at Rancho and Olive View to support the ER volume at K/DMC—if the reimbursement is based on patient volume—wouldn't Rancho and Olive View have simply generated those funds?

Answer

Not necessarily—see answer to previous question.

Question

If the funding is not based on patient days—what's the benefit to the residents in South LA?

Each Supervisor
November 20, 2006
Page 5

Answer

The benefit to the residents in South LA is a chance to retain a hospital on the K/DMC site, which would otherwise be closed in the absence of this plan.

Please let me know if you have any questions or desire further information.

BAC:gww (METROKARE FISCAL IMPACT UPDATE)

Attachments

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors

reflected in Attachment B. Further, if necessary, patients will be referred to private contract hospitals to maintain the 174 average daily census workload level as the need may arise. The Department is currently in process of procuring these contracts.

The nearly \$200 million revenues in jeopardy is included in Attachment A for FY 06-07 and is adjusted for the expected impact of Medi-Cal Redesign in the subsequent fiscal years. Even assuming these funds, it is anticipated that MetroCare will be somewhat more expensive to run than K/DMC at the specified workload levels, at least through FY 08-09, per Attachment A.

We have no plans to run a 42 bed K/DMC (or new MLK-Harbor) at any point without the full complement of the remaining 132 average daily census workload level as displayed in Attachment B.

Question

We assume that without an emergency room and only med surg beds – Rancho will be limited in what services it can replace for the community. Similarly – it's hard to believe patients would actually be transferred to Olive View given the distance. So what is the real benefit of putting 89 beds at Rancho and 42 at Olive View vs more beds at Harbor and through local contracting?

Answer

The maximum beds at Rancho are 63 and at Olive View, 20. Only 20 of the Rancho beds are to remain permanently and none of the Olive View beds. The purpose of the temporary beds at Rancho and Olive View are to help maintain the DHS system's solvency, as well as provide a basis for re-expansion of MLK-Harbor's census.

Question

How does the county draw down this funding? Is it tied to patient or cost centers? Our hope is that the funding will follow the patients—if that is true—how much can the county possibly think will be generated by Olive View for K/DMC patients? If it is tied to patient volume/patient days—how much of the \$200 million (prorated monthly) will actually be generated under this plan?

Answer

The objective of the plan is to preserve as much of the \$200 million annually for use within the County DHS as possible. This is why the plan first contemplates the preservation of K/DMC's average daily census of 174 by opening beds in other DHS facilities and transferring K/DMC patients to fill those beds. Back-up plans include the

**COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
UPDATED COST-OUT ESTIMATE OF METRO CARE PLAN**

**November 18, 2006
(\$ in Millions)**

	Fiscal Year 2006-07			Fiscal Year 2007-08			Fiscal Year 2008-09		
	K/DMC per Fiscal Outlook*	MetroCare Option	Variance	K/DMC per Fiscal Outlook*	MetroCare Option	Variance	K/DMC per Fiscal Outlook*	MetroCare Option	Variance
Expenses									
K/DMC / MLK-HARBOR	444.3 ⁽¹⁾	403.2 ⁽²⁾	\$ 41.1 (14.8)	\$ 453.7 ⁽¹⁾	\$ 385.2 ⁽²⁾	\$ 68.5 (26.3)	\$ 488.4 ⁽¹⁾	\$ 407.5 ⁽²⁾	\$ 80.9 (27.4)
HUCLA	-	14.8 ⁽²⁾	(14.8)	-	26.3 ⁽²⁾	(26.3)	-	27.4 ⁽²⁾	(27.4)
LAC+USC	-	4.3 ⁽²⁾	(4.3)	-	8.2 ⁽²⁾	(8.2)	-	8.4 ⁽²⁾	(8.4)
RLA	-	24.5 ⁽²⁾	(24.5)	-	28.7 ⁽²⁾	(28.7)	-	17.9 ⁽²⁾	(17.9)
OVIUCLA	-	5.4 ⁽²⁾	(5.4)	-	2.0 ⁽²⁾	(2.0)	-	- ⁽²⁾	-
DHS-Reassigned Employees	-	21.4 ⁽²⁾	(21.4)	-	44.8 ⁽²⁾	(44.8)	-	15.7 ⁽²⁾	(15.7)
Totals	\$ 444.3	\$ 473.6	\$ (29.3)	\$ 453.7	\$ 495.2	\$ (41.5)	\$ 488.4	\$ 476.9	\$ (9.5)
Revenues									
K/DMC / MLK-HARBOR	173.2 ⁽³⁾	171.0 ^(3,21)	\$ (2.2)	\$ 173.4 ⁽³⁾	\$ 162.4 ^(3,21)	\$ (11.1)	\$ 176.7 ⁽³⁾	\$ 163.7 ^(3,21)	\$ (13.0)
Medi-Cal Redesign	13.4 ⁽³⁾	12.1 ⁽³⁾	(1.3)	13.6 ⁽³⁾	11.8 ⁽³⁾	(1.7)	13.6 ⁽³⁾	12.2 ⁽³⁾	(1.4)
Medicare	88.8 ⁽³⁾	81.8 ⁽³⁾	(7.0)	90.3 ⁽³⁾	76.2 ⁽³⁾	(14.1)	91.2 ⁽³⁾	78.0 ⁽³⁾	(13.2)
Other	-	-	-	-	-	-	-	-	-
HUCLA	-	2.2 ⁽³⁾	2.2	-	2.4 ⁽³⁾	2.4	-	2.3 ⁽³⁾	2.3
LAC+USC	-	5.8 ⁽³⁾	5.8	-	7.7 ⁽³⁾	7.7	-	8.3 ⁽³⁾	8.3
RLA	-	2.3 ⁽³⁾	2.3	-	2.7 ⁽³⁾	2.7	-	1.5 ⁽³⁾	1.5
OVIUCLA	-	1.2 ⁽³⁾	1.2	-	0.7 ⁽³⁾	0.7	-	0.0 ⁽³⁾	0.0
Revenue Offset for Reassigned Employees	-	3.8 ⁽³⁾	3.8	-	16.3 ⁽³⁾	16.3	-	5.7 ⁽³⁾	5.7
Totals	\$ 275.4	\$ 280.2	\$ 4.8	\$ 277.2	\$ 280.3	\$ 3.0	\$ 281.5	\$ 271.8	\$ (9.7)
Net Cost	\$ 168.9	\$ 193.4	\$ (24.5)	\$ 176.5	\$ 214.9	\$ (38.4)	\$ 186.9	\$ 205.0	\$ (18.1)
Transition Costs									
Incentive Plan ⁽⁴⁾	?	?							
Information Technology to Support MetroCare System ⁽⁵⁾	?	?							
Interns/Residents at K/DMC ⁽⁶⁾	?	?							
Transportation ⁽⁷⁾	?	?							
Requests For Information (RFI) for various Contracts ⁽⁸⁾	?	?							
Close Psych ER ⁽⁹⁾	?	?							
Harbor Capital Projects and ramp-up cost for OV and RLA ⁽²³⁾	?	?							

* Per September 20, 2006 DHS Fiscal Outlook Board Letter / forecast, adjusted for the elimination of 16% Cost Reduction target which is not anticipated to materialize because of the focus on patient care issues.

The attached notes are an integral part of this schedule.

ATTACHMENT A

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
UPDATED COST-OUT ESTIMATE OF METRO CARE PLAN

November 16, 2006

FOOTNOTES

- (1) Expenses as included in the September 20, 2006 DHS Fiscal Outlook Board Letter/forecast for FYs 06-07 through 08-09. Amounts were updated from the October 11, 2006 schedule to include FY 06-07, as well as refinements in the allocation of various central adjustments.
- (2) Analysis reflects DHS' clarification of the phasing of ADC transitions from the existing to the new service configurations. Fully operational MLK-Harbor includes 103 ADC (originally targeted 100) is allocated as follows: Med/Surg ADC of 79 ADC, ICU/CCU of 21 ADC and OB of 3 ADC, and is achieved by November 5, 2007. Costs are included for the MLK-Harbor MACC, which is assumed to commence on July 1, 2007. In addition, costs vary from October 11, 2006 schedule due to an updated FY 04-05 Cost Model used for the estimates.

FY 06-07 Estimated Costs through February 28, 2007 are per existing K/DMC cost structures via their Cost Model, since that is the last date the existing K/DMC will be in operation. Beginning March 1, 2007 the new MLK-Harbor comes online. From that date forward, and continuing through FYs 07-08 and 08-09, estimated costs are determined by applying H/UCLA's variable inpatient and outpatient cost per target service unit and then adding K/DMC's hard fixed costs. Cost for FY 07-08 and 08-09 includes applicable COLA's.
- (3) Reflects variable costs of transferred ADC to H/UCLA, per H/UCLA's FY 04-05 Cost Model, applied to FYs 06-07 through 08-09 Fiscal Forecasts. This differs from the October 11, 2006 schedule due to: a) FY 06-07 phase-in costs have now been included; and b) costs were initially determined using an older Cost Model. Cost for FY 07-08 and 08-09 includes applicable COLA's.
- (4) The responsibility for K/DMC Psychiatric Services Operations will be transferred to LAC+USC. The variable service cost is transferred to LAC+USC and the fixed cost remains at MLK-Harbor. These amounts vary from the October 11, 2006 schedule due to: a) FY 06-07 estimates were not included, and b) the FYs 07-08 and 08-09 costs were refined by LAC+USC staff to reflect staffing and logistical changes deemed necessary to accommodate the transfer of the 21 Adult Psych ADC from K/DMC to LAC+USC. Cost for FY 07-08 and 08-09 includes applicable COLA's.
- (5) The October 11, 2006 Preliminary Cost-Out reflected only the completed configuration for H/UCLA and MLK-Harbor, and did not take into account any phasing or any cost impacts to RLA or OVI/UCLA. Since that time, DHS has clarified the phasing of ADC from K/DMC to other hospitals. ADC transfers into RLA assume staffing lead-in costs. RLA staff provided all cost estimates, and have included Nursing Registry costs in their estimate, along with other logistical/equipment start-up costs. These same types of costs have yet to be identified for the remaining affected hospitals.
- (6) The transfers-in of 20 ADC to OVI/UCLA begin on January 1, 2007, with a ramp-up beginning on November 30, 2006, per the MetroCare Plan Timeline, and then the ADC are transferred back to MLK-Harbor on September 10, 2007. Therefore, OVI/UCLA only has additional costs pertaining to the 20 ADC for 7 months in FY 06-07, and 2.5 months in FY 07-08. Costs were calculated based on FY 03-04 rates provided by OVI/UCLA Finance staff, inflated by budget COLA percentages per Controller's Division.
- (7) DHS is assuming that 60% of current K/DMC employees will be reassigned to other locations. Reassigned employee expense is calculated by taking 60% of K/DMC's latest full-year FY 06-07 S&EB forecast (\$217.0M less: fixed EB's of \$30.6M interns and residents salaries and variable EB's of \$14.5M, based on 12/1/06 departure not known as of our last report) less the expected DHS S&EB surplus (excluding K/DMC) of \$35.4M. This results in an adjusted full-year basis of reassigned employee expenses of \$67.8M.

DHS assumes that all costs related to reassigned employees will be \$0 by the end of FY 08-09, due to either mitigation or attrition. This yields a mitigation/attrition factor of 1/28 per month (per the 28th month period from March 1, 2007 through June 30, 2009.) Since MLK-Harbor comes online March 1, 2007, only four months of the above \$67.8M x the corresponding mitigation/attrition factor which results in \$21.4M in costs apply to FY 06-07. This calculation is used again for the remaining 24 of 28 months mitigation/attrition factor through FY 07-08 and 08-09, resulting in \$44.8M and \$15.6M in costs for each fiscal year, respectively.
- Amounts were updated from the October 11, 2006 Preliminary Cost-Out to reflect the above, and to exclude interns and Residents from employee reassignment costs. Additionally, all DHS facilities (including JCHS, OMC and HSA) are now assumed to be used for mitigation, not just the Hospitals and CHCs/HCs as previously assumed.
- (8) Revenues as included in the September 20, 2006 DHS Fiscal Outlook Board Letter/forecast for FYs 06-07 through 08-09. Amounts were updated from the October 11, 2006 schedule to include FY 06-07, as well as refinements in the allocation of various central adjustments.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
UPDATED COST-OUT ESTIMATE OF METRO CARE PLAN

November 16, 2006

FOOTNOTES

- (9) Assumes K/DMC will continue receiving all funding from CMS for the entire transition period and continuing through FY 08-09. Medi-Cal Redesign revenues are based on current Medi-Cal Redesign formulas using total estimated costs for each Fiscal Year, beginning with FY 06-07 and running through FY 08-09. Cost for FY 07-08 and 08-09 includes applicable COLA's.
- (10) MLK-Harbor Medicare and Other Revenues were reduced pro rata based on the new MLK-Harbor's cost reduction from K/DMC, and the corresponding ADC transfers to H/UCLA, RLA and OV/UCLA.
- (11) Identifies the impact of Medi-Cal Redesign, Medicare, and other revenues on H/UCLA, RLA and OV/UCLA due to ADC transfers from K/DMC. At the time of the October 11, 2006 schedule, the Department had not yet clarified the ADC phasing from K/DMC to H/UCLA, RLA, and OV/UCLA; therefore, all revenues were assumed to go to H/UCLA only.
- (12) Since costs were identified as per footnote (4) above, the inpatient Mental Health revenue will be transferred to LAC+USC beginning December 15, 2006. In FYs 06-07 through 08-09 the revenues also include the impact of Medi-Cal Redesign. These amounts vary from the October 11, 2006 schedule due to: a) FY 06-07 was not included in that schedule, and b) revenues were refined due to cost changes as identified in footnote (4) above.
- (13) Impact of reassigned employees is reflected in CBRC and Medi-Cal Redesign revenues for FYs 06-07 through 08-09.
- (14) The proposed incentive plan provides additional compensation to staff selected to establish the new MLK-Harbor facility. Additional compensation provided under the plan will expire on December 31, 2008. The plan is pending approval of the CAO, Board, and Union. No cost estimate is available at this time.
- (15) The Department's CIO is analyzing the required information technology costs associated with the MetroCare plan. The high-level preliminary cost estimate is \$15M. However the Department will be revising this amount as we proceed with our analysis.
- (16) DHS anticipates paying costs for Interns and Residents through June 30, 2007, even though they are not expected to work for the County beyond November 30, 2006.
- (17) Transportation costs for patients and families to relocate to other hospitals is unknown at this time.
- (18) The Department is issuing several RFI's regarding various physician, ER and other contracts. Costs are unknown at this time.
- (19) Psych ER at K/DMC will close on December 15, 2006. The cost impact to other DHS hospitals is unknown at this time.
- (20) H/UCLA has indicated that various capital and other projects may require immediate attention as a result of the MetroCare plan, for which costs are currently unknown. These include, but are not limited to: Ambulatory Care Project, Nurse Call System, Space Enhancements/Expansions for clinics, offices, lab, parking, support service and ICU. Ramp-up cost needed by OV/UCLA and RLA has yet to be identified.
- (21) Under SB 1100, the State implementing legislation for the waiver, reimbursement for participating public hospitals can only be recognized by changed costs associated with those services. To the extent such changes occur, the hospital's baseline reimbursement will be changed in the subsequent fiscal year, unless the aggregate change for participating public hospitals on a percentage basis is more than 3% variance from the aggregate Medi-Cal revenue percentage change for the participating private hospitals, or the value of the SNCP is less than \$153M. At which point each hospital reverts to its original baseline. Based on internal projections, we anticipate that for FYs 07-08 and 08-09, the hospital's baseline will revert to its original baseline. However, if the baseline does not revert back to the original, we would expect Medi-Cal Redesign revenue to change approximately \$40.8M and \$31.8M, respectively, for FYs 07-08 and 08-09.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
TIMELINE OF METRO CARE PLAN
REFLECTING PHASING OF INPATIENT ADC AND OUTPATIENT VISITS ⁽¹⁾

STEP	DATE	STARTING POINT	CURRENT KDMC ADC	CURRENT KDMC ADC	LACHUSC	KDMC	DATE	KDMC	LACHUSC	WUCLA	CUMULATIVE CHANGE IN DHS ADC	NEW HALLK	TOTAL ADC
16	12/15/2006	TIME LINE	ADULT PSYCH	174	21	174	Starting	174	21	13	0	174	174
7	11/30/2006	TIME LINE	RICU	(21)	-	140	11/30/2006	140	21	13	0	174	174
8	11/30/2006	TIME LINE	PICU	(12)	-	130	11/30/2006	130	21	13	0	174	174
9	11/30/2006	TIME LINE	PEDIATRICS	(10)	7	123	11/30/2006	123	21	23	0	174	174
10	11/30/2006	TIME LINE	HIGH RISK OS	(7)	-	88	11/30/2006	88	21	30	0	174	174
19	12/15/2006	TIME LINE	MED-SURG ADC	(23)	-	76	12/15/2006	76	21	30	0	174	174
20	11/1/2007	TIME LINE	MED-SURG ADC	(20)	20	56	11/1/2007	56	21	30	0	174	174
32	3/1/2007	TIME LINE	MED-SURG ADC	(18)	-	3	3/1/2007	3	21	30	0	174	174
33	3/1/2007	TIME LINE	MED-SURG ADC	(97)	38	3	3/1/2007	3	21	30	0	174	174
42	6/10/2007	TIME LINE	LOW RISK OB ⁽²⁾	(3)	(20)	-	6/10/2007	-	21	30	0	174	174
46	11/5/2007	TIME LINE	MED-SURG ADC	(27)	-	-	11/5/2007	-	21	30	0	174	174
	11/5/2007	INPATIENT VISITS	-	-	21	20	07/01/2007	0	21	30	0	180,000	22,800
	11/5/2007	OUTPATIENT VISITS	-	-	21	20	07/01/2007	0	21	30	0	180,000	22,800

(1) The Timeline and Bed Map uses Beds and ADC interchangeably. To ensure the appropriate amount of ADC is transferred, we have corrected all Bed counts to ADC.

(2) The Timeline does not reflect any concurrent phase-outs of ADC temporarily transferred to other hospitals. These phase-outs are netted against the total ADC transferred that is identified on this schedule.

(3) Included in the OB/GYN ADC currently at KDMC, are low-risk OB of 3 ADC which will be transferred to Harbor-UCLA. These 3 low-risk OB ADC were not reflected in the Timeline. County Counsel has determined that an OB Program must be retained at the new HOLIX Community Hospital in order to retain DSH status. In order to accommodate this, the total ADC permanently transferred to RLA will be 20 ADC, net the 23 ADC shown in the Timeline.

(4) The Timeline does not mention when the new HOLIX MACC opens. We have assumed a July 1, 2007 commencement date.

ATTACHMENT B



Health Services
LOS ANGELES COUNTY

Los Angeles County
Board of Supervisors

Gloria Molina
First District

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November 28, 2006

Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**APPROVAL OF REQUEST TO DELEGATE AUTHORITY TO THE
DIRECTOR OF HEALTH SERVICES FOR AGREEMENTS FOR THE
PROVISION OF PHYSICIAN, AMBULANCE AND NON-MEDICAL
TRANSPORTATION SERVICES AND FOR THE PURCHASE OF INPATIENT
BED SPACE FOR THE IMPLEMENTATION OF THE METROCARE PLAN
(All Districts) (3 Votes)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Delegate authority to the Director of Health Services ("Director") to negotiate and for the Chair of the Board, without further action by the Board, to execute agreements related to the implementation of Metrocare for:

(a) Emergency Department Physician Services at Martin Luther King-Harbor Hospital (MLK-Harbor), at an annual estimated maximum obligation of \$6 million for the period December 1, 2006 through November 30, 2009, with an option for the County to extend the agreement on an annual basis through November 30, 2011, on the same terms and conditions, upon approval by County Counsel and the Chief Administrative Office; (b) Hospitalist and Intensivist Physician Services at MLK-Harbor and other County facilities impacted by Metrocare's implementation, at an estimated annual maximum obligation of \$3 million, for the period December 1, 2006 through November 30, 2007, with an option for the County to extend the agreement, on an annual basis through November 30, 2011, on the same terms and conditions, upon approval by County Counsel and the Chief Administrative Office; (c) Ambulance Base and Transportation Services at MLK-Harbor, at an estimated maximum obligation of \$1 million for the period December 1, 2006 through November 30, 2007, with an option for the County to extend the agreement on a monthly basis through November 30, 2009, on the same terms and conditions, upon approval by County Counsel and the Chief Administrative Office; d) The purchase of inpatient hospital beds, including both the hospital component and physician costs. This also includes the possible purchase of Skilled Nursing Facility ("SNF") beds, from various private sector hospitals and facilities on an as-needed

basis in the SPA 6 and SPA 8 areas, at an estimated maximum total obligation of \$85,000,000 for all agreements, for the period December 1, 2006, through November 30, 2007, with an option for the County to extend the agreements on an annual basis through November 30, 2011, on the same terms and conditions upon approval by County Counsel and the Chief Administrative Office. Actual expenditures under the hospital contracts could be considerably less based on actual beds utilized. To the extent these beds are used, we expect some as yet undetermined savings in DHS facilities costs. The cumulative total maximum obligations for all of the above recommended contracts will not exceed \$95,000,000 annually.

2. Delegate authority to the Director to enter into new agreements and amend any existing agreements, as appropriate, to enable the provision of Non-Medical Transportation Services for patients and families of MLK-Harbor requiring such services at a maximum obligation of \$210,000 for the period December 1, 2006, through November 30, 2007, with an option for the County to extend the agreements on an annual basis through November 30, 2011, on the same terms and conditions, upon approval by County Counsel and the Chief Administrative Office.
3. Instruct the Director to report to the Board as to the specific terms of each agreement, upon execution of each agreement, and to report quarterly to the Board on the status of each agreement, including the usage of each agreement and the amount expended pursuant to each agreement, through the duration of the agreement. Specifically, the Director shall notify the Board of his intent to extend any of the agreements prior to executing the extension.
4. Make a finding pursuant to Los Angeles County Code section 2.121.420 that the Emergency Department, Hospitalist and Intensivist Physician Services can more feasibly be performed by independent contractors; and,
5. Make a finding pursuant to Los Angeles County Code section 2.180.010 that, to the extent any of the above agreements for Physician Services will involve contracting with current or former County employees who are or may be officers, principals, partners or major shareholders of the contracting entity, that special circumstances exist which justify such contracts.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION:

Effective December 1, 2006, residents from the Charles R. Drew University of Medicine and Science will no longer be available to serve patients at MLK-Harbor. This action has required the Department of Health Services ("Department") to seek replacement providers to ensure continued service at MLK-Harbor. Although the Department has moved quickly to identify and negotiate with all needed replacement service providers, the short amount of time to accomplish this large task has limited its ability to complete negotiations in time to present the individual contracts for your Board's consideration prior to the December 1 deadline.

Additionally, pivotal to the implementation of Metrocare, with its system-wide implications, is the need for additional services, including non-medical and ambulance transportation

services between MLK-Harbor and other public and private hospitals, which will be accepting patients for care, as well as the need for the purchase of inpatient beds to support the care and treatment of patients transferred from MLK-Harbor.

Approval of delegated authority to negotiate these agreements and for the Chair of the Board to execute them upon the completion of those negotiations, without further action of your Board, will allow the Director to expeditiously enter into agreements with various health care and related service providers.

FISCAL IMPACT/FINANCING:

The estimated maximum obligation for each agreement(s) for a one-year period is as follows:

Emergency Department Physician Services	\$ 6,000,000
Ambulance Base and Transportation	\$ 1,000,000
Inpatient Bed Capacity, including SNF	\$ 85,000,000
Hospitalist & Intensivist Physician Services	\$ 3,000,000

The cumulative total maximum obligations for all of the above-recommended contracts will not exceed 95,000,000 annually.

The maximum obligation for the Non-Medical Transportation services agreements will be \$210,000.

These costs will be funded out of existing resources. We will return to the Board at a future date to realign budgeted dollars which may include the use of DHS Designation Funds.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS:

On September 22, 2006, the Centers for Medicare and Medicaid Services ("CMS") announced that it intended to revoke its certification of Martin Luther King-Charles R. Drew Medical Center ("KDMC"), effective November 30, 2006. Recently, Drew University determined to voluntarily withdraw its ACGME accreditation of the University and all 15 ACGME sponsored programs effective July 1, 2007. While the University's intent is that all physician residents will be able to complete this current academic year under Drew University sponsorship, the residents will complete their training through rotations in facilities other than KDMC, effective December 1, 2006.

As a direct result of the loss of resident physician services, the Department has an urgent need to contract for certain *full-time physician services to allow for the continued provision of medical services to the community, most immediately to staff the emergency department at MLK-Harbor and to provide supplemental hospitalist and intensivist physician services at that facility, as well as to other County facilities to offset the shift in patient care services under Metrocare.*

Additionally, central to the success of the ongoing reconfiguration is the movement of patients from MLK-Harbor to other County facilities as well as to private sector hospitals in SPAs 6 and 8.

Accordingly, contracts for the provision of ambulance transportation and non-medical transportation for MLK/Harbor patients and families and for the purchase of inpatient bed capacity are critical to the success of the Metrocare Plan.

Since your Board's November 6, 2006 approval of the Metrocare Plan, the Department has identified potential contractors, through informal Request For Information ("RFI") processes, for all physician services and for ambulance transportation services as well as for the

purchase of inpatient bed capacity. At minimum, these contracts will allow for the County to terminate the contracts expeditiously should the County determine to close the facility.

Negotiations are continuing with the selected service providers and the contracts themselves are in the final stages of completion. However, due to the remaining work necessary to complete and execute these agreements in a timely manner, there is not sufficient time to present individual contracts for your Board's consideration by the December 1 date.

Additionally, the Department has determined that certain patients may require non-medical transportation to an appropriate clinical venue to obtain services. To address this need, the Department will be entering in agreements with transportation vendors ensure that such access to patients is available.

Approval of delegated authority will allow the Director to expeditiously enter into agreements with various health care and related service providers to ensure the continued availability of health care services in SPAs 6 and 8 as the implementation of Metrocare begins, MLK-Harbor undertakes its transition to a community hospital and the residents depart their service at MLK-Harbor.

The Department may return to your Board in the near future should it determine that it is necessary to procure additional medical surgical beds.

Finally, the Department is asking that your Board make findings, pursuant to County Code section 2.180.010, that special circumstances exist to support contracting with certain current or former County employees, and, pursuant to County Code section 2.121.240, can more feasibly be performed by independent contractors.

As to the first finding related to current or former County employees, the Department believes that some County physicians may leave County service and join those contractors selected to provide the various physician services presented for your Board's consideration. Los Angeles County Code section 2.180.010 prohibits the County from contracting with entities for which current or former County employees serve as officers, principals, partners or major shareholders.

At this time, the Department is not aware of any facts that would trigger this prohibition. However, the Department is asking that the Board make an anticipatory finding that special circumstances exist that justify these contracts.

As to the feasibility finding, on November 21, 2006, your Board approved an amendment to the Proposition A ordinance that permits contracting for physician services upon a determination that the use of independent contracts is more feasible than the use of County employees. The provision of contracted physician services is integral to the success of the Metrocare Plan and, most importantly, to the provision of patient care at

MLK-Harbor, especially given the difficulty in recruiting and retaining physicians. Without contract physicians, the continuation of care will not be possible. As such, the Department requests that your Board find that special circumstances exist to justify contacting with current or former County employees, should that circumstance arise, and that the use of physician contractors is more feasible.

CONTRACTING PROCESS:

Because of the time constraints involved in putting these services in place before December 1, 2006, a formal solicitation was not feasible. Instead, the Department chose to release various Requests for Information to gauge interest in these contract opportunities.

Teams comprised of Department staff reviewed each expression of interest to determine whether the response indicated that the interested party had the capacity to provide the service and, particularly, whether it demonstrated the ability to meet the Department's compressed time schedule.

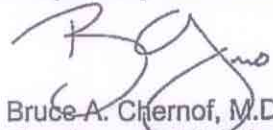
As a result of this process, the Department was able to select providers for each service category for contract negotiations.

IMPACT ON CURRENT SERVICES (OR PROJECTS):

Approval of these recommendations will enable the Department to expeditiously negotiate contracts for services vital to the provision of patient care in SPAs 6 and 8 and for the success of the Metrocare Plan.

When approved, the Department requires the original and three (3) signed copies of the Board's action.

Respectfully submitted,



Bruce A. Chernof, M.D.
Director and Chief Medical Officer

BAC:irc

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors